

**Testimony of
Kathleen A. White**

1 **DELMARVA POWER & LIGHT COMPANY**
2 **TESTIMONY OF KATHLEEN A. WHITE**
3 **BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION**
4 **CONCERNING AN INCREASE IN ELECTRIC BASE RATES**
5 **DOCKET NO. 11-__**
6

7 1. Q: Please state your name and position, and business address.

8 A: My name is Kathleen A. White. I serve as Assistant Controller for Pepco
9 Holdings, Inc. (PHI) and its utility operating companies, which include Delmarva
10 Power & Light Company (DPL or the Company). My business address is 630
11 Martin Luther King Jr. Boulevard, Wilmington, Delaware, 19899.

12 2. Q: What are your responsibilities in your role as Assistant Controller for PHI?

13 A: I oversee the PHI Corporate Accounting department, which includes the
14 asset, and general accounting functions.

15 3. Q: Please state your educational background and professional qualifications.

16 I received my undergraduate degree and Master of Science in accounting
17 from the University of Delaware and I am a Certified Public Accountant. I have
18 held various financial accounting and managerial positions at PHI, Conectiv and
19 DPL since 1989. Prior to joining DPL, I was an instructor for financial and
20 managerial accounting classes at the University of Delaware.

21 4. Q: Have you previously filed testimony?

22 A: Yes. I have filed testimony before the Delaware Public Service
23 Commission (DPSC) in Docket No. 05-304, 06-284, 09-414 and 10-237; before
24 the Maryland Public Service Commission (MPSC) in Case Nos. 9092, 9093,
25 9192, 9217 and 9249; before the District of Columbia Public Service Commission

(DCPSC) in Case Nos. 1053, 1076 and 1087; and before the New Jersey Board of Public Utilities (NJBPU) in Docket No. ER09080664 and ER11080469.

5. Q: What is the purpose of your testimony?

A: I am supporting the actual amounts recorded in Delmarva's books and records for the test period, which is the twelve months, ending December 31, 2011. The actual test period cost data for the electric business, which is the six months ended June 30, 2011, was supplied to Mr. VonSteuben for use in determining revenue requirements.

6. Q: Please describe how your testimony is structured.

A: My testimony is outlined below:

I. Supporting Minimum Filing Requirements.

II. Books and Records.

III. Company's Cost Management Structure.

I. Supporting Minimum Filing Requirements

7. Q: Please list the filing requirements that you are sponsoring.

A: I am supporting the following filed Minimum Filing Requirements:

Supporting documents previously filed (Schedule B):

* Annual Federal Energy Regulatory Commission (FERC) Form

No.1 for 2010.

* June 2011 FERC Form 3-Q.

* PHI and DPL SEC Form 10K for 2010.

* PHI and DPL SEC June 2011 10Q.

* Proxy Statement dated March 31, 2011.

1 **Supporting documents included in this filing:**

2 * Schedule No. 3N – AFUDC.

3 **II. Books and Records**

4 **8. Q: Does the Company maintain its books and records in accordance with the**
5 **FERC Uniform System of Accounts (USofA) and Generally Accepted**
6 **Accounting Principles (GAAP)?**

7 A: Yes.

8 **9. Q: Are the Company's books and records audited by an independent**
9 **accounting firm?**

10 A: Yes. PricewaterhouseCoopers LLP (PwC), an independent public
11 accounting firm, audited the Company's financial statements included in the 2010
12 Delmarva 10-K and the 2010 FERC Form No. 1. A copy of the audit reports
13 issued by PwC, related to the Company's 2010 10-K and FERC Form 1, are
14 attached as Schedule KAW-1. As shown on Schedule KAW-1, PwC concluded
15 that, based on its audit work, the Company's financial statements conform with
16 GAAP and the requirements of the FERC's USofA in all material respects.

17 **10. Q: What is the source of the unadjusted test period data supplied to Mr.**
18 **VonSteuben for use in the determining revenue requirements in this filing?**

19 A: The source of the unadjusted actual test period data for the six months
20 ended June 30, 2011, is the books and records of the Company reported under its
21 FERC accounting system. As discussed earlier, this data was supplied to Mr.
22 VonSteuben for use in determining revenue requirements.

III. Company's Cost Management Structure

11. Q: Please briefly discuss the Company's organizational structure.

A: PHI segregates costs by providing service through separate operating subsidiaries. In addition, PHI has a Service Company which provides mutual services to the operating companies, including DPL. The Service Company provides a variety of support services in compliance with a Service Agreement included in the Cost Allocation Manual (CAM). The Service Agreement describes the support services provided, as well as procedures and allocation methods used to charge costs related to those services to the operating companies that receive the support services.

12. Q: Please discuss the Company's cost accounting approach.

A: The underlying principle of PH's costing approach is the use of a fully distributed cost alignment method, sometimes referred to as full costing. Under this method, both direct and indirect costs are identified and charged for goods and services.

As described in PHI's CAM, the principle for assigning both direct and indirect costs to a PHI affiliate is based on a three-tiered approach observing the following priorities. First, costs which benefit a specific PHI affiliate (such as DPL, Atlantic City Electric Company (ACE), and/or Potomac Electric Power Company (Pepco)) will be directly assigned whenever practical. This assignment accounts for the majority of PHI operating company costs. Examples of such direct assignment costs are employees supporting a particular company or costs directly incurred by a particular company (e.g., overhead linemen and associated

1 materials and contractors are directly recorded in the utilities' books and records,
2 while shared services such as the Corporate Accounting department are directly
3 recorded in the Service Company books and records).

4 Second, certain Service Company costs are directly charged to the
5 operating company because the costs are related to services performed solely on
6 behalf of that affiliate. An example of such a direct charge is a Regulatory
7 Reporting Department employee working on a specific utility company's
8 compliance filing. That employee would directly charge his/her time to the
9 utility.

10 Third, other Service Company costs represent shared services that are not
11 directly chargeable to an operating company, as the services benefit multiple
12 companies. Such costs must be allocated among the various operating companies
13 that benefit from such services. An example of such allocable costs is a Financial
14 Reporting department employee working on the annual Securities and Exchange
15 Commission (SEC) 10-K annual report. His/her time would be allocated to the
16 operating companies, since the preparation of PHI's SEC 10-K annual report
17 benefits multiple companies. These allocations of shared services are based on
18 one of the allocation methods included in PHI's Service Agreement, which I
19 discussed earlier.

20 In limited circumstances, costs incurred by an affiliated company other
21 than the Service Company on behalf of another affiliate are either directly charged
22 or applied to that benefiting affiliate based on the fully distributed cost method.

1 **13. Q: Has this Commission previously approved the Company's cost management**
2 **principles?**

3 A: Yes. The Commission issued Order No. 5469 in Docket No. 99-582 regarding the
4 Company's cost management principles. As to the transfer of services between
5 the service company and the regulated utility, the Commission requires that fully
6 allocated cost principles be used.

7 **14. Q: Does the Company have any requirements by this Commission regarding**
8 **transactions with the Service Company?**

9 A: Yes. The Company is required to file an annual affiliate transaction report
10 detailing the affiliate transactions of DPL, including the service company.
11 Further these transactions have been examined by an independent auditor for
12 compliance with the cost principles documented in the Company's CAM. These
13 independent examinations are conducted every third year and reports have been
14 issued to the DPSC for the years 1997, 1998, 2001, 2004 and 2007. The 2010
15 independent examination will be filed with the DPSC once the audit is completed
16 by PwC.

17 **15. Q: Have there been other independent examinations of the Company's CAM**
18 **that include, in particular, the Service Company?**

19 A: Yes. Attached as Schedule KAW-2 is a listing of the independent
20 examinations of the Company's CAM and/or Service Company.

1 16 Q: Have these completed independent examinations revealed any material or
2 substantive issues with the calculations of the Service Company charges?

3 A: In each of these completed examinations, the auditors found the Service
4 Company allocations and charges to be consistent with the CAM and the Service
5 Agreement.

6 17. Q Does this conclude your testimony?

7 A: Yes, it does.



Report of Independent Auditors

To the Board of Directors of
Delmarva Power & Light Company:

We have audited the accompanying balance sheets of Delmarva Power & Light Company (the "Company") as of December 31, 2010 and 2009 and the related statements of income, retained earnings, cash flows and accumulated comprehensive income, comprehensive income, and hedging activities for the years then ended, included on pages 110 through 123 of the accompanying Federal Energy Regulatory Commission Form No. 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and should not be used for any other purpose.

PricewaterhouseCoopers LLP

April 18, 2011

DPL

Report of Independent Registered Public Accounting Firm

To the Shareholder and Board of Directors of
Delmarva Power & Light Company

In our opinion, the financial statements of Delmarva Power & Light Company (a wholly owned subsidiary of Pepco Holdings, Inc.) listed in the accompanying index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Delmarva Power & Light Company at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule of Delmarva Power & Light Company listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Washington, D.C.
February 24, 2011

Cost Allocation Manual /
Service Company
Independent Examinations

<u>Jurisdiction</u>	<u>Auditor</u>	<u>Audit period</u>
Securities and Exchange Commission (SEC)	SEC Public Utility Holding Company Act Staff	1999-September 2000 2003 - 2004
Delaware Public Service Commission	Deloitte and Touche	12me December 1997 12me December 1998 12me December 2001
	PricewaterhouseCoopers LLP (PwC)	12me December 2004 12me December 2007
New Jersey Board of Public Utilities	PMC-WGA Liberty Consultants Overland Consulting	2000 2002 2005-2008
Maryland Public Service Commission	Ernst & Young	12me September 2006
	PwC	12me September 2006 12me September 2008 12me June 2009 12me September 2010 12me June 2011
Public Service Commission of the District of Columbia	KPMG	2007-2008
Federal Energy Regulatory Commission (FERC)	FERC Division of Audit Staff	2008-2009